

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT
TODD PLATTS, CHAIRMAN



MEDIA ADVISORY

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"Why is SBA Losing Ground on Financial Management?"

What: Government Reform Committee Subcommittee Oversight Hearing: "Why is the Small Business Administration Losing Ground on Financial Management"

When: Tuesday April 29, 2003, 2:00pm

Where: Room 2154, Rayburn House Office Building

Background:

This hearing will focus on the financial management problems at Small Business Administration (SBA). The SBA is one of the 24 Chief Financial Officer Act agencies and was one of only three agencies that did not receive a clean audit of their financial statements for fiscal year 2002. Furthermore, SBA's auditors actually withdrew the clean opinions they issued for SBA's financial statements for fiscal years 2001 and 2000.

As one of the 24 Chief Financial Officer Act (CFO Act) agencies, SBA has been required to produce audited annual financial statements since fiscal year 1996. From the inception of this requirement, SBA has consistently received a clean opinion from their auditors each year. However, SBA's auditors issued a disclaimer on SBA's fiscal year 2002 financial statements and withdrew their clean opinions on SBA's financial statements for fiscal years 2001 and 2000. This turnaround occurred in part as the result of the findings described in the General Accounting Office (GAO) report, entitled *Small Business Administration: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain*.

GAO determined that SBA incorrectly calculated the accounting losses on the loan sales and lacked reliable financial data to determine the overall financial impact of the sales. SBA's accounting for the loan sales is so flawed that SBA was actually showing a profit on their disaster relief loans, which are so highly subsidized that gaining a profit would be very difficult.

SBA's Chief Financial Officer and its Inspector General both generally agreed with the overall findings and recommendations in the GAO report. The Chief Financial Officer has contracted with a consulting firm to assist them in determining where they made their mistakes in accounting for the loan sales.

The situation at SBA raises serious questions about the quality of the financial management of their loan asset sales. It also demonstrates a point that is consistently raised by GAO: sound financial management requires more than clean audit opinions.

SBA has the opportunity now to reevaluate their management of the loan asset sales and to move forward with solutions that will result in sustainable long-term improvements to their financial management.

Witnesses:

Linda M. Calbom, Director of Financial Management and Assurance, U.S. General Accounting Office (GAO);

Thomas A. Dumaesq, Chief Financial Officer, Small Business Administration;

Peter L. McClintock, Deputy Inspector General, Small Business Administration;

Charles Hayward, Partner, Cotton and Company; and

Bill Menth, Consultant to Cotton & Company's SBA audit team for fiscal year 2002, and post-audit consultant to SBA.

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